



The Aims of John Labatt Limited

The aims of John Labatt Limited are: first, to produce malt beverages of the finest quality; second, to make a fair profit on operations; and, third, to meet all of our obligations to our shareholders, our employees, our customers and to the community at large, all of whom contribute to and are responsible for the success of the Company.

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John Labatt Limited

FOR THE YEAR ENDING SEPTEMBER 30. 1953



LONDON, CANADA

ANNUAL REPORT

FOR THE YEAR ENDING SEPTEMBER 30

1953

Annual General Meeting of Shareholders

DECEMBER 18, 1953

The President's Report

Directors

| | |
|------------------------|---------------------------------|
| HUGH F. LABATT..... | London, Ontario |
| W. H. R. JARVIS..... | New York City, New York, U.S.A. |
| V. P. CRONYN..... | London, Ontario |
| R. G. IVEY, Q.C..... | London, Ontario |
| HUGH A. MACKENZIE..... | London, Ontario |
| A. S. GRAYDON..... | London, Ontario |

Officers

| | |
|------------------------|-------------------------------------|
| HUGH F. LABATT..... | Chairman of the Board and President |
| HUGH A. MACKENZIE..... | Vice-President and Gen. Manager |
| W. L. SHORTREED..... | Assis't. Gen. Manager and Sec'y. |
| J. H. MOORE, C.A..... | Director of Finance and Treasurer |

Solicitors

Ivey, Livermore & Dowler, London

Auditors

Clarkson, Gordon & Co., London

Transfer Agents

The Canada Trust Company, Toronto and Winnipeg, The Royal Trust Company, Montreal, Vancouver and Halifax, and The Bank of Montreal Trust Company, New York, U.S.A.

Registrars

The Royal Trust Company, Toronto, Winnipeg and Halifax, The Bankers' Trust Company, Montreal, The Canada Trust Company, Vancouver, and The Bank of Montreal Trust Company, New York, U.S.A.

TO THE SHAREHOLDERS OF JOHN LABATT LIMITED:

Your Directors have pleasure in presenting the Annual Report of your Company for the fiscal year ending September 30, 1953.

Financial Position

In the long term interest of the business and in order to employ the financial resources of the Company to the greatest advantage, it was decided to change the method of providing depreciation and to set aside the maximum allowed under income tax regulations. This change was made retroactive to include the 1950 fiscal year. Financial statements for the years 1950, 1951 and 1952 were accordingly amended.

Comparisons from the financial statements of the past three years, as amended, are herewith summarized:

| | 1953 | 1952 | 1951 |
|---|-------------|------------|------------|
| Net earnings per share (†) \$ | 1.90 | 1.33 | 1.61 |
| Dividend paid—per share | 1.00 | 1.00 | 1.00 |
| Earned surplus at end of year | 10,686,511* | 7,871,617 | 7,796,576 |
| Working capital | 4,189,965 | 4,801,805 | 4,911,442 |
| Fixed assets at cost | 17,144,414 | 15,325,813 | 12,193,819 |
| Reserve for replacement of plant and equipment | — * | 2,000,000* | 2,000,000* |
| Depreciation reserves | 6,490,184 | 5,636,702 | 4,852,831 |

(†) A comparison of profits before and after amendment is presented in the General Manager's Report.

(*) The \$2,000,000 reserve for replacement of plant and equipment set up in 1947-48, having served its function now that the modernization of the plants has been almost completed, has been returned to earned surplus.

Conditions in the Industry

Sales volume of the industry increased during the year. Draught beer sales declined slightly while the demand for bottled beer continued to move ahead.

Costs in the industry varied, prices of some materials showing signs of levelling off after a decade of consistent advances.

The Position of Your Company

Again, your Company enjoyed the highest sales in its history. Completion during the year of the new bottling plant at London enabled the Company to meet the record demand for its products.

In these days of marked growth in the Canadian economy, your Directors have been mindful of the need to make long range plans to reinforce the position your Company has attained within the industry.

During the year the opportunity was presented of gaining control of Shea's Winnipeg Brewery Limited, the largest brewery in Manitoba. Following a special general meeting on November 12 at which shareholders of the Company authorized an additional 500,000 common shares without nominal or par value, financing arrangements were completed and offers to purchase are being mailed to all Shea's shareholders on November 18.

Your Directors believe that the union of the two companies, each of which will retain its present identity, will materially strengthen future operations. In addition to the increased stability which will result, the broader financial base will enable advantage to be taken of the growth possibilities inherent in the Canadian market.

Modernization and Expansion

The large new bottling shop went into full operation last Spring. Together with new warehouse and shipping facilities, it effected operating economies which are reflected in the improved earnings statement.

The \$1,100,000 addition to the brewing division at London was sufficiently advanced to utilize its processing facilities last June. Added fermenting capacity will be available next Spring.

The continuing increase in the Company's sales in the Province of Quebec during the year made necessary the enlargement of the Montreal warehouse and expansion of Quebec distribution.

Studies which include the preparation of plans are being conducted in anticipation of the construction of a brewery on the 29-acre site purchased in La Ville La Salle near Montreal.

Earnings

While 1953 net earnings were improved, your Directors are still in agreement that the Company's working capital position should be maintained in order to provide further capital requirements foreseen as a result of higher sales volume and to serve other future needs of the business.

General

As of September 30, 1953, shareholders totalled 2,410.

To shareholders, the Directors wish to convey their appreciation for your interest and support, and on your behalf and for themselves, they acknowledge the contribution to the advancement of the Company made by the officers and all employees of the Company.

Submitted on behalf of the Directors,



President.

*London, Ontario.
November 18, 1953.*

Consolidated Balance Sheet

JOHN LABATT LIMITED

AND ITS SUBSIDIARIES (Incorporated under the Companies Act, Canada)

AS AT SEPTEMBER 30, 1953

ASSETS

CURRENT:

| | | |
|--|------------|--------------|
| Cash..... | \$ 659,434 | |
| Marketable securities and accrued interest (market value approximately \$1,146,000)..... | 1,081,833 | |
| Accounts receivable less allowance for doubtful accounts..... | 1,381,428 | |
| Inventories as determined and certified by the management and valued as set out in Note 1..... | 3,406,077 | |
| Prepaid expenses..... | 219,549 | \$ 6,748,321 |

FIXED:

| | Asset at Cost | Accumulated Depreciation | Net Book Value |
|------------------------------|---------------------|-----------------------------|-------------------|
| Land..... | \$ 720,103 | | \$ 720,103 |
| Buildings..... | 8,849,351 | \$2,145,982 | 6,703,369 |
| Machinery and equipment..... | 6,371,750 | 3,605,921 | 2,765,829 |
| Trucks and automobiles..... | 1,203,210 | 738,281 | 464,929 |
| | <u>\$17,144,414</u> | <u>\$6,490,184</u> | 10,654,230 |

OTHER:

| | | |
|---|------------|---------------------|
| Advances to Brewers' Warehousing Company Limited..... | \$ 686,539 | |
| Sundry assets..... | 152,777 | 839,316 |
| | | <u>\$18,241,867</u> |

LIABILITIES

CURRENT

| | | |
|---|--------------|--------------|
| Accounts payable and accrued charges..... | \$ 1,157,537 | |
| Dividend payable October 1, 1953..... | 225,000 | |
| Estimated taxes payable..... | 932,819 | |
| Serial debenture instalment and sinking fund payment due within one year..... | 243,000 | \$ 2,558,356 |

DEBENTURES (Note 2)..... 4,257,000

RESERVE FOR REDEMPTION OF CONTAINERS IN HANDS OF PUBLIC..... 400,000

CAPITAL AND SURPLUS:

| | | |
|--|------------|------------|
| Capital— | | |
| Authorized—1,000,000 common shares without par value | | |
| Issued—900,000 common shares..... | \$ 340,000 | |
| Earned surplus (Note 3)..... | 10,686,511 | 11,026,511 |

On behalf of the Board

HUGH F. LABATT, Director
HUGH A. MACKENZIE, Director

\$18,241,867

The "Notes to the Consolidated Financial Statements" on the second page following should be read with this statement.

AUDITORS' REPORT

To the Shareholders of
John Labatt Limited:

We have examined the consolidated balance sheet of John Labatt Limited and its subsidiaries as at September 30, 1953 and the consolidated statements of profit and loss and earned surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and consolidated statements of profit and loss and earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at September 30, 1953 and the results of their operations for the year ended on that date, according to the best of our information and the explanations given to us and as shown by the books of the companies.

London, Canada,
November 13, 1953

CLARKSON, GORDON & CO.,
Chartered Accountants.

JOHN LABATT LIMITED

AND ITS SUBSIDIARIES

Statement of Consolidated Profit and Loss

FOR THE YEAR ENDED SEPTEMBER 30, 1953

| | | |
|---|-----------|--------------------|
| Operating profit before deducting the charges set out below | | \$4,831,482 |
| Deduct: | | |
| Directors' fees | \$ 6,000 | |
| Executive remuneration | 127,662 | |
| Legal fees | 20,000 | |
| Depreciation (Note 4) | 1,112,585 | |
| Interest on funded debt | 191,556 | 1,457,803 |
| | | <u>\$3,373,679</u> |
| Add income from investments | | 41,215 |
| Profit before taxes on income | | <u>\$3,414,894</u> |
| Estimated taxes on income | | 1,700,000 |
| Net profit for the year | | <u>\$1,714,894</u> |

Statement of Consolidated Earned Surplus

FOR THE YEAR ENDED SEPTEMBER 30, 1953

| | | | | | |
|---|---|--|---|--------------------------------|--------------|
| Balance September 30, 1952..... | | | | | \$ 8,337,249 |
| Deduct adjustments relating to prior years— | | | | | |
| Increase in provisions for depreciation to the maximum amounts allowable under The Income Tax Act, Canada, and write-offs of hydro frequency conversion costs, less reductions in tax liability—as given effect to during 1953: | | | | | |
| <i>For the year ended September 30</i> | <i>Increase in provision for depreciation</i> | <i>Write-off of hydro frequency conversion costs</i> | <i>Estimated reduction in tax liability</i> | <i>Net decrease in profits</i> | |
| 1950 | \$264,006 | | \$150,000 | \$ 114,006 | |
| 1951 | 247,596 | \$37,098 | 160,000 | 124,694 | |
| 1952 | 425,640 | 1,292 | 200,000 | 226,932 | |
| | <u>\$937,242</u> | <u>\$38,390</u> | <u>\$510,000</u> | <u>465,632</u> | |
| Revised balance as at September 30, 1952..... | | | | | \$ 7,871,617 |
| Add: | | | | | |
| Net profit for the year ended September 30, 1953 | | | | 1,714,894 | |
| Reserve for replacement of plant and equipment restored to surplus. | | | | <u>2,000,000</u> | |
| | | | | \$11,586,511 | |
| Less dividends paid or declared (\$1 per share)..... | | | | 900,000 | |
| Balance September 30, 1953 | | | | <u>\$10,686,511</u> | |

Notes to the Consolidated Financial Statements

NOTE 1—Inventories

Inventories at September 30, 1953, are valued as follows:

| | |
|---|---------------------|
| Beer and ale—at the lower of cost or market | \$ 2,308,313 |
| Raw materials and supplies—at the lower of cost or market | 492,808 |
| Bottles—at redemption price | 357,377 |
| Kegs—at cost less amounts written off | 247,579 |
| | <u>\$ 3,406,077</u> |

NOTE 2—Debentures

Particulars of debentures at September 30, 1953 are as follows:

| | | |
|--|------------|---------------------|
| Authorized | | <u>\$10,000,000</u> |
| Issued: | | |
| 3¼% serial debentures series "A" to mature in equal annual instalments of \$125,000 each on February 1, 1954 to 1961 inclusive | | \$ 1,000,000 |
| 3¾% serial debentures series "A" to mature in equal annual instalments of \$125,000 each on February 1, 1962 to 1971 inclusive | | 1,250,000 |
| 5% sinking fund debentures series "B" to mature May 1, 1972 | | 2,250,000 |
| | | <u>\$ 4,500,000</u> |
| Deduct: | | |
| Instalment of Series "A" debentures due February 1, 1954 | \$ 125,000 | |
| Sinking fund payment in respect of Series "B" debentures due May 1, 1954 | 118,000 | 243,000 |
| | | <u>\$ 4,257,000</u> |

NOTE 3—Earned Surplus

The trust indenture relating to the debentures contains a provision whereby dividends may not be declared or paid which would reduce consolidated net current assets (as therein defined) below a certain level. At September 30, 1953 the consolidated net current assets (as so defined) were substantially in excess of such requirements.

NOTE 4—Depreciation Charges

During the 1953 year the company changed its basis of calculating depreciation, effective for its 1950 and subsequent fiscal years, from the straight-line method employed in the published financial statements of prior years to the diminishing balance method and adopted the maximum rates allowable for federal income tax purposes. The effect of this change for the three years ended September 30, 1952 is reflected in the attached statement of consolidated earned surplus.

For the year ended September 30, 1953 this change resulted in an additional depreciation charge of approximately \$312,000 to consolidated profits and in a reduction of approximately \$157,000 in consolidated net profit for the year.

NOTE Re Proposed Purchase of Shares of Shea's Winnipeg Brewery Limited

The company has under consideration the making of offers for the purchase of the outstanding shares of Shea's Winnipeg Brewery Limited. These offers, if made and accepted by all the shareholders of Shea's Winnipeg Brewery Limited, will require the issue of 255,000 common shares of John Labatt Limited (necessitating the issuance of supplementary letters patent) and the payment of approximately \$4,500,000 in cash. If these offers are made and accepted, the company proposes to provide a substantial portion of the cash requirement by equity financing.

The General Manager's Report

TO THE PRESIDENT AND DIRECTORS OF JOHN LABATT LIMITED:

The report to follow enlarges upon the financial statements and summarizes certain developments and changes in the Company's 1953 fiscal operations.

Working Capital

The working capital of the Company decreased by \$611,840, as shown in the following summary:

| | |
|--|-------------|
| Additions to capital assets..... | \$2,041,037 |
| Dividends..... | 900,000 |
| Provision for repayment of debentures in 1954..... | 243,000 |
| Increases in sundry assets and advances to Brewers' Warehousing Company Limited..... | 219,489 |
| | <hr/> |
| | \$3,403,526 |
| Less funds provided from operations including depreciation..... | 2,791,686 |
| | <hr/> |
| Decrease in working capital..... | \$ 611,840 |

From the above it will be seen that most of the capital funds spent during the year were in connection with the modernization and current expansion programme now almost completed.

Income and Costs

As a result of a change in method of providing depreciation, the provision for 1953 was increased by approximately \$312,000 while the net profit for the year after provision for income tax was reduced by approximately \$157,000.

By making the change retroactive to 1950, the Company's net cash income was increased by approximately \$622,000 for the four years, 1950 to 1953 inclusive. The recorded profits for the years 1950, 1951, and 1952 were reduced by a total of \$465,632. This decrease is reflected in the statement of consolidated earned surplus.

The advantages to the Company during a period of expansion in applying the maximum depreciation provided by income tax regulations may be gauged from the following per share summary. The figures shown in brackets are based upon the former method of providing depreciation.

| | 1953 | 1952 | 1951 | 1950 |
|-------------------------------|-------------|-------------|-------------|-------------|
| Net Profit..... | 1.90 (2.08) | 1.33 (1.58) | 1.61 (1.75) | 1.60 (1.72) |
| Depreciation..... | 1.24 (.89) | 1.12 (.65) | .88 (.60) | .83 (.55) |
| Cash Income..... | 3.14 (2.97) | 2.45 (2.23) | 2.49 (2.35) | 2.43 (2.27) |
| Income Tax..... | 1.89 (2.06) | 1.49 (1.71) | 1.65 (1.79) | .98 (1.14) |
| Cash Income before Income Tax | 5.03 (5.03) | 3.94 (3.94) | 4.14 (4.14) | 3.41 (3.41) |

The 1953 operating profits increased over those for 1952. The major factors which contributed to this improvement were: a larger sales volume, a decrease in certain unit production costs resulting from the new and modern plant facilities, and the lower cost of some raw materials.

Distribution

The modernization programme in the Transportation Department was continued throughout the year. A further number of smaller trucks was disposed of and replaced by more efficient units of considerably larger capacity.

Sales

For the third successive year, your Company's sales reached an all-time high.

Significant gains were registered in Quebec and the United States, where new marketing and distribution programmes were completed during the year.

India Pale Ale added further to its long list of international awards by winning the only first prize among Canadian entries in the important Brewers' Exhibition at Olympia, London, England.

The seventh carload of Anniversary Ale was sent to Canadian troops in Korea, in the names of the Hotelmen of Ontario and of the Company. It may be noted that 72 per cent of the Company's employees have seen service in Her Majesty's forces.

Toronto Plant

The operations of this plant, whose production is confined to draught beer, continued at an efficient level and recorded a moderate increase in profit for the year.

The Toronto plant captured the highest award in its class in the Dominion Brewers Association annual Safety Contest.

General

The progress achieved during the year was the result of the excellent co-operation and loyal support of all employees. Management wishes to express its appreciation for the contribution made by all members of the Company.

Respectfully submitted,

Nugh Mackenzie

General Manager

*London, Ontario.
November 17, 1953.*